

EXECUTIVE SUMMARY

Like its national counterpart, the outlook for the Idaho economy has changed. Unlike its national counterpart, the change is not easy to perceive. Two key economic indicators serve as an example of this paradox. Idaho nonfarm employment is higher each year compared to the previous forecast. However, Idaho real personal income is lower than its predecessor in three of the four years in the current *Forecast*. There appears to be an inconsistency between the employment and personal income data. However, a closer look at the data reveals an Idaho economic outlook that is stronger in the short run, then grows slightly slower in the long run as compared to the previous *Forecast*. For example, Idaho nonfarm employment is expected to be 4,500 higher in 2004, but by the end 2007, there are only 990 more jobs than in the previous *Forecast*. This implies that after getting a head start in 2004, Idaho nonfarm employment advances slower in the remaining years of the forecast. The Idaho personal income projections reveal a story similar the employment data. For example, Idaho nominal personal income in the current *Forecast* starts out \$70 million (0.2%) higher in 2004 than in the previous *Forecast*. However, by 2007 it is \$146 million lower (-0.3%) than the previous projection. The decline is even more pronounced when the personal income forecast is adjusted for inflation. Specifically, Idaho real personal income goes from being \$7 billion (0.0%) above its predecessor in 2004 to being \$233 billion (-0.6%) below it in 2007. As with nonfarm employment, this occurs because real personal income grows slower over the forecast period than in the previous forecast. In summary, the outlook for Idaho's economy has changed. Over the next few years it will grow slightly slower than had been previously forecast. What has not changed is that the Gem State's economy should out perform the national economy. Over the forecast period, Idaho nonfarm employment should expand 1.9% per year, which is above the nation's expected 1.2% pace. Idaho real personal income also grows faster than the U.S. pace.

The outlook for the national economy has been lowered compared to the previous forecast. In the July 2004 *Idaho Economic Forecast*, it was reported U.S. real GDP would grow a healthy 4.9% this year, 3.8% next year, 2.9% in 2006, and 3.4% in 2007. In the current *Forecast*, real output advances 4.3% in 2004, 3.3% in 2005, 2.9% in 2006, and 3.2% in 2007. Other key measures are also expected to perform below their previously forecasted counterparts. For example, U.S. real personal income was anticipated to expand 3.6% annually in the prior *Forecast*. It is projected to rise just 3.2% per year in the current *Forecast*. Nonfarm employment displays a similar change. The differences between the previous and current forecasts largely reflect higher oil prices. In the previous *Forecast* it was believed the price of oil was near or just passed its peak and would soon retreat. Instead of a relatively shallow peak and steep price decline, the current forecast shows a higher peak and shallower decline. Higher oil prices have caused energy-related inflation to soar at an estimated 26.3% annual rate in the second quarter of 2004. Should increases of this magnitude spread to overall inflation, it would have a destabilizing effect on the economy. Fortunately, the impact of rising oil prices should remain restricted to the energy component of consumer prices. This is critical because it will allow the Federal Reserve to raise rates gradually, instead of taking more drastic measures to smother runaway inflation. It has been estimated that the increase in oil prices, both actual and projected, since this year's beginning has shaved about 0.3-0.4% off GDP this year and about 0.7-0.8% off GDP next year.

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
OCTOBER 2004**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP (BILLIONS)											
Current \$	8,304	8,747	9,268	9,817	10,128	10,487	11,004	11,713	12,341	12,917	13,579
% Ch	6.2%	5.3%	6.0%	5.9%	3.2%	3.5%	4.9%	6.4%	5.4%	4.7%	5.1%
2000 Chain-Weighted	8,704	9,067	9,470	9,817	9,891	10,075	10,381	10,825	11,184	11,509	11,874
% Ch	4.5%	4.2%	4.4%	3.7%	0.8%	1.9%	3.0%	4.3%	3.3%	2.9%	3.2%
PERSONAL INCOME - CURR \$											
Idaho (Millions)	25,367	27,287	29,068	31,290	32,963	34,217	35,384	37,518	39,361	41,494	43,761
% Ch	4.1%	7.6%	6.5%	7.6%	5.3%	3.8%	3.4%	6.0%	4.9%	5.4%	5.5%
Idaho Nonfarm (Millions)	24,628	26,371	28,075	30,474	31,968	33,130	34,325	36,460	38,232	40,286	42,555
% Ch	5.0%	7.1%	6.5%	8.5%	4.9%	3.6%	3.6%	6.2%	4.9%	5.4%	5.6%
U.S. (Billions)	6,915	7,423	7,802	8,430	8,724	8,879	9,162	9,647	10,115	10,635	11,211
% Ch	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.3%	4.8%	5.1%	5.4%
PERSONAL INCOME - 2000 \$											
Idaho (Millions)	26,666	28,429	29,788	31,289	32,286	33,043	33,534	34,787	35,848	37,153	38,421
% Ch	2.4%	6.6%	4.8%	5.0%	3.2%	2.3%	1.5%	3.7%	3.0%	3.6%	3.4%
Idaho Nonfarm (Millions)	25,890	27,475	28,770	30,473	31,311	31,994	32,531	33,807	34,820	36,071	37,363
% Ch	3.3%	6.1%	4.7%	5.9%	2.8%	2.2%	1.7%	3.9%	3.0%	3.6%	3.6%
U.S. (Billions)	7,269	7,734	7,996	8,429	8,545	8,575	8,683	8,945	9,212	9,522	9,843
% Ch	4.3%	6.4%	3.4%	5.4%	1.4%	0.3%	1.3%	3.0%	3.0%	3.4%	3.4%
HOUSING STARTS											
Idaho	8,862	10,110	10,338	11,519	12,239	13,158	16,329	16,718	15,364	15,141	14,372
% Ch	-3.9%	14.1%	2.3%	11.4%	6.2%	7.5%	24.1%	2.4%	-8.1%	-1.5%	-5.1%
U.S. (Millions)	1,475	1,621	1,647	1,573	1,601	1,710	1,853	1,932	1,790	1,666	1,655
% Ch	0.4%	9.9%	1.6%	-4.5%	1.8%	6.8%	8.3%	4.3%	-7.3%	-6.9%	-0.7%
TOTAL NONFARM EMPLOYMENT											
Idaho	507,423	520,477	538,100	558,577	568,014	568,004	572,503	585,972	595,856	606,734	618,202
% Ch	3.4%	2.6%	3.4%	3.8%	1.7%	0.0%	0.8%	2.4%	1.7%	1.8%	1.9%
U.S. (Thousands)	122,767	125,924	128,992	131,791	131,837	130,343	129,937	131,242	133,416	134,856	136,097
% Ch	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.0%	1.7%	1.1%	0.9%
SELECTED INTEREST RATES											
Federal Funds	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	2.8%	3.5%	3.5%
Bank Prime	8.4%	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	5.8%	6.5%	6.5%
Existing Home Mortgage	7.7%	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	5.7%	6.5%	6.7%	6.8%
INFLATION											
GDP Price Deflator	1.7%	1.1%	1.4%	2.2%	2.4%	1.7%	1.8%	2.1%	1.9%	1.7%	1.9%
Personal Cons Deflator	1.7%	0.9%	1.7%	2.5%	2.1%	1.4%	1.9%	2.2%	1.8%	1.7%	2.0%
Consumer Price Index	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.6%	1.9%	1.5%	1.7%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the SECOND Quarter of 2004**

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	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	11,473	11,643	11,782	11,956	12,119	12,279	12,421	12,545	12,687	12,833	12,992	13,157
% Ch	7.4%	6.1%	4.9%	6.0%	5.6%	5.4%	4.7%	4.0%	4.6%	4.7%	5.0%	5.2%
2000 Chain-Weighted	10,698	10,771	10,862	10,968	11,054	11,149	11,233	11,300	11,376	11,460	11,552	11,647
% Ch	4.5%	2.8%	3.4%	4.0%	3.2%	3.5%	3.1%	2.4%	2.7%	3.0%	3.3%	3.3%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	36,525	37,409	37,615	38,522	38,669	39,125	39,575	40,073	40,658	41,227	41,771	42,320
% Ch	3.9%	10.0%	2.2%	10.0%	1.5%	4.8%	4.7%	5.1%	6.0%	5.7%	5.4%	5.4%
Idaho Nonfarm (Millions)	35,629	36,213	36,541	37,457	37,522	38,015	38,468	38,925	39,445	40,007	40,576	41,114
% Ch	8.5%	6.7%	3.7%	10.4%	0.7%	5.4%	4.9%	4.8%	5.5%	5.8%	5.8%	5.4%
U.S. (Billions)	9,445	9,585	9,665	9,895	9,935	10,059	10,178	10,289	10,425	10,561	10,706	10,846
% Ch	5.0%	6.1%	3.4%	9.9%	1.6%	5.1%	4.8%	4.4%	5.4%	5.3%	5.6%	5.3%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	34,180	34,736	34,791	35,441	35,422	35,698	35,978	36,292	36,657	37,007	37,318	37,630
% Ch	0.6%	6.7%	0.6%	7.7%	-0.2%	3.2%	3.2%	3.5%	4.1%	3.9%	3.4%	3.4%
Idaho Nonfarm (Millions)	33,342	33,626	33,798	34,461	34,371	34,685	34,972	35,253	35,564	35,911	36,251	36,557
% Ch	5.1%	3.5%	2.1%	8.1%	-1.0%	3.7%	3.4%	3.3%	3.6%	4.0%	3.8%	3.4%
U.S. (Billions)	8,839	8,901	8,939	9,104	9,100	9,177	9,253	9,319	9,399	9,480	9,565	9,644
% Ch	1.7%	2.8%	1.7%	7.6%	-0.1%	3.4%	3.3%	2.9%	3.5%	3.5%	3.6%	3.3%
HOUSING STARTS												
Idaho	16,594	17,218	16,806	16,254	15,800	15,430	15,124	15,101	15,260	15,234	15,142	14,928
% Ch	-27.3%	15.9%	-9.2%	-12.5%	-10.7%	-9.0%	-7.7%	-0.6%	4.3%	-0.7%	-2.4%	-5.5%
U.S. (Millions)	1,943	1,923	1,938	1,923	1,862	1,813	1,767	1,718	1,688	1,667	1,658	1,653
% Ch	-16.8%	-4.1%	3.2%	-2.9%	-12.2%	-10.1%	-9.7%	-10.6%	-6.9%	-4.9%	-2.3%	-1.1%
TOTAL NONFARM EMPLOYMENT												
Idaho	581,425	585,070	586,821	590,573	592,021	594,553	597,168	599,681	602,445	605,264	608,215	611,011
% Ch	4.2%	2.5%	1.2%	2.6%	1.0%	1.7%	1.8%	1.7%	1.9%	1.9%	2.0%	1.9%
U.S. (Thousands)	130,367	131,125	131,480	131,998	132,585	133,207	133,770	134,104	134,371	134,681	135,029	135,345
% Ch	1.1%	2.3%	1.1%	1.6%	1.8%	1.9%	1.7%	1.0%	0.8%	0.9%	1.0%	0.9%
SELECTED INTEREST RATES												
Federal Funds	1.0%	1.0%	1.4%	1.9%	2.2%	2.7%	2.9%	3.4%	3.5%	3.5%	3.5%	3.5%
Bank Prime	4.0%	4.0%	4.4%	4.9%	5.2%	5.7%	5.9%	6.4%	6.5%	6.5%	6.5%	6.5%
Existing Home Mortgage	5.6%	5.7%	5.8%	5.9%	6.2%	6.4%	6.7%	6.8%	6.7%	6.7%	6.7%	6.7%
INFLATION												
GDP Price Deflator	2.8%	3.2%	1.1%	2.0%	2.3%	1.9%	1.6%	1.6%	1.8%	1.7%	1.7%	1.8%
Personal Cons Deflator	3.3%	3.2%	1.6%	2.2%	1.8%	1.6%	1.5%	1.5%	1.8%	1.8%	1.9%	1.9%
Consumer Price Index	3.6%	4.7%	1.9%	2.3%	1.8%	1.5%	1.2%	1.3%	1.5%	1.6%	1.7%	1.7%

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